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UNCLAS SECTION 01 OF 02 KINGSTON 000379

SIPDIS

STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

E.O. 12958: NA

TAGS: [ECON](#) [EFIN](#) [JM](#)

SUBJECT: Jamaican Consumers Optimistic About Economy
(Corrected Version)

1. Summary: Buoyed by expectations of a rebound in economic growth following Hurricane Ivan, consumer confidence surged from October to December 2004. Consumers are anticipating higher incomes and remittances, but still expect spending plans to stagnate. Conversely, business confidence declined due to damage associated with Hurricane Ivan. However, businesses are expecting increased investment and economic growth due to continued macroeconomic improvements. There is also increasing optimism among international investors, particularly given the moderation in the country's fiscal deficit combined with the build-up in the stock of Net International Reserves. Barring any unforeseen events, both consumer and business confidence are expected to increase throughout 2005. Professor Richard Curtin of the University of Michigan conducted the Business and Consumer Confidence Survey on behalf of the Jamaica Conference Board. End Summary.

2. The index of consumer confidence rose by 15 percent to 118.6 during October to December 2004, the highest level since the fourth quarter of 2002. Gains in the index were underpinned by expectations of future economic growth, with consumers registering their most positive assessment of the economy in over two years. Most importantly, a number of Jamaican consumers anticipate that a jump in job opportunities will create the best outlook for employment in two years. Record performance in the tourism sector and an anticipated surge in foreign investment are some of the underlying factors explaining the buzz associated with job creation. Expectations of higher income and increased remittances are also driving consumer confidence. However, consumers remain hesitant to increase spending, suggesting that they still consider the recovery to be fragile.

3. By contrast, the index of business confidence declined from 108.4 to 102 during the quarter. The fall-off reflected damage and repair costs as well as lost sales associated with the passage of Hurricanes Ivan and Charlie. In fact, firms reported that the costs incurred by the hurricanes had a devastating impact on its profits. However, most businesses surveyed expected the economy to improve on the back of new investments in the mining and tourism sectors, declining interest rates, stability in the exchange rate, lower inflation, and the creation of a memorandum of understanding between the GOJ and unions. Over 41 percent of the firms surveyed reported that it was a good time to expand business operations, the highest percentage in two years.

4. International investors have also been expressing optimism about the country's economic outlook due largely to: (1) sustained improvement in the economy, which should improve the country's ability to service its debt; (2) moderation in the fiscal deficit; and, (3) the jump in the stock of Net International Reserves (NIR). This has influenced rating agency Standard and Poors to revise its outlook on the country from negative to stable. European-based brokerage house Commerzbank Securities has also upgraded its outlook on the economy in its latest Emerging Market Update.

5. Comment: Barring shocks, the confidence of Jamaican consumers is expected to increase throughout 2005. This outlook is predicated on the anticipated surge in foreign investments and, by extension, job creation. Remittances, which have become a significant source of disposable income, should also continue to increase in 2005. However, spending could continue to lag until consumers are satisfied that the current economic gains are permanent. Business confidence actually continued to improve during the last month of the current survey. This trend should continue throughout 2005, given the positive economic developments outlined by firms in the survey. Indeed, some of these gains have continued into 2005, with inflation subsiding in January and the Bank of Jamaica in February cutting interest rates for the twelfth time in a year. Stability has also continued in the foreign

exchange market due to increased foreign exchange inflows,
resulting in a further build-up in the stock of NIR. End
Comment.

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